New York (State) Transit Commission

Statement and outline of plan for readjustment...

New York

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STATEMENT AND OUTLINE

OF

PLAN OF READJUSTMENT
NEW YORK CITY STREET RAILROADS

TRANSIT COMMISSION

GEORGE MCANENY, *Chairman*

LEROY T. HARKNESS JOHN F. O'RYAN

CLARENCE J. SHEARN, *Special Counsel*

49 LAFAYETTE STREET
NEW YORK

September 29, 1921

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The Transit Commission, appointed under the provisions of Chapter 134 of the Laws of 1921, has a threefold function. Succeeding to the powers and duties of the former Transit Construction Commissioner, it is charged with the planning and building of rapid transit railways, and with the completion of the $50,000,000 of subway work still under construction. As the successor, also, of the Public Service Commission for the First District, it has supervisory and regulatory power over all lines, rapid transit or otherwise, operated within the city limits. Finally, and in particular, it is required, after making the necessary studies and investigation, to prepare a plan for the relief of the present intolerable transit conditions, and for the radical and permanent reorganization of the entire transit system.

The act under which the Commission is proceeding sets forth (in Section 106) that the plan of reorganization is to effect the following purposes:

> "(1) the combination, rehabilitation, improvement and extension of existing railroads so that service thereon may be increased and improved to the fullest extent possible,
>
> "(2) the receipt, as soon as practicable, by the city, of sufficient returns from the operation of the railroads so that the corporate stock or bonds issued by the city for the construction of rapid transit railroads may be exempted in computing the debt incurring power of the city under the constitution of the state, and
>
> "(3) the assuring to the people of the city the

> continued operation of the railroads at the present or lowest possible fares consistent with the just valuations of the railroads and their safe and economical operation.''

The act leaves to the discretion of the Commission the determination as to which railroad properties shall be brought within a unified system. It provides, further, that the Commission shall determine whether, in including roads not already owned by the city, full title to their properties shall be transferred to the city. In anticipation of such an extension of municipal ownership, the Commission is required to revalue each of the roads likely to be affected. It is directed to give consideration, in the process of valuation, to certain designated principles; but it is left free to give final weight only to such elements either of cost or valuation, as it may deem pertinent—to secure, in short, whatever terms it may deem fairest to the city.

The process of initial valuation of so vast a group of properties has necessarily proved a lengthy one, especially as the Commission determined to secure for its guidance original figures prepared by its own forces, without dependence upon appraisals previously made, whether for the city, the courts or the companies. Rapid progress has, nevertheless, been made. Within a week of taking office, the Commission organized a Bureau of Valuations, employing an engineering and accounting staff of some two hundred. Compilations of the cost of the properties comprising the dual system that have been years in arrears, have been brought to date and with the active cooperation of the companies in the preparation of reliable inventories, final figures covering all roads will be in hand by the end of the year.

SEPTEMBER 29, 1921.

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formed shortly after the Commission took office that a reorganization as broad as the act indicated would undoubtedly be undertaken. They were at the same time informed that the Commission was not disposed to use the power the act conferred upon it to raise fares as a measure of temporary relief; or to raise fares, in any event, unless, after full investigation of the situation and the preparation of the plan itself, it became clear that other remedies would not be sufficient.

Existing Conditions

A word with relation to the conditions the Commission finds existing may aid a better understanding of the remedies it proposes to apply:

The transit system in all of its parts, still suffers, as it has long suffered, from the various consequences of divided organization and divided control. But the hampering conditions surrounding its operation have been aggravated beyond endurance by more recent development. The companies are not giving the character of service their franchises and contracts with the city require them to give. It is clear that if present conditions are continued, they will remain without ability either to re-establish or to maintain such service. There is, of course, no doubt that their plight is attributable, in no small degree, to incidents of their own selfish and often unsavory history. Revenues that in the past should have gone into better facilities, or into the maintenance of reserves that conservative business practice required, have been paid into private pockets through swollen or forced dividends. Beyond question, many millions of dollars realized from nickel fares have thus been diverted from the purposes to which morally they belonged. This was true ten years or more ago in the case of most of the surface lines, almost none of which has paid any

dividends since. It has been exemplified strikingly in the recent policy of the Interborough Company. But no amount of exasperation about the past will help a solution of the present problem. The years of the war, and its aftermath, with the consequent drastic inflation of every element of cost entering into railroad operation, brought to light the inherent financial weaknesses, and put an end to what remained of profit taking. None of the companies has paid a dividend for three years, with the exception of the Manhattan Elevated Railway Company, the stockholders of which are paid a fixed annual dividend in the form of "rentals" secured by the Interborough Company lease of the elevated properties; and two or three others of minor consequence.

Closely following the disappearance of profit payments upon stock, came lapses in the payment of interest on funded debt, failure to pay taxes and other public charges, and rapid growth in the arrears of ordinary current accounts payable. The associated Brooklyn companies, subway, elevated and surface, upon an appeal of creditors to the courts in December, 1918, and shortly afterward the surface lines of the New York Railways in Manhattan, passed into the hands of receivers. The Interborough system has been perilously near receivership on more than one occasion, and the time finally has been reached when none of the companies—with the single exception of the Interborough in its subway division—is earning enough, even with restricted service, to pay costs of operation and the interest on its debt.

In their effort to secure the means of continued operation, the companies were turned toward indirect methods either of increasing revenue or of reducing expense.

Results of Such Policy

The findings of the Commission with relation to the

results of this policy, and the general conditions now prevailing, may be summarized as follows:

(1) The surface systems, previously unified upon the basis of single fares and the giving of practically universal free transfers, have been broken up. Many of the lines or parts of lines, deemed the least profitable, have been discontinued wholly, while others previously run under unified operation have, for lack of ability to pay rentals, been returned for separate operation to the companies from which they were leased.

(2) Except where required by law, or by special franchise terms, the free transfers between lines have either been cut out altogether, or are now given only upon an additional charge of two cents; with the result that former five cent fares in these instances have been turned into either ten or seven cent fares.

Of the 2,365 free transfer points maintained three years ago on the surface lines, 1,783 have been discontinued, and at 227 of those continued, the two-cent rate is charged.

In 1918, 309,973,002 free transfers were collected on the surface lines within a total traffic carried of 866,362,667—that is, a transfer was issued to one passenger out of each three. For the corresponding year ended June 30, 1921, 92,683,148 free transfers were collected out of a traffic of 977,600,258, or one to each passenger out of ten.

It is difficult to reach definite estimates of the added net revenue secured by the surface lines either through the dropping of routes or the elimination of transfers; but the accountants of the Commission figuring as closely as possible from the data at their command, approximate the total at $9,000,000 annually.

(3) Both train and car service, upon rapid transit

routes as well as upon the surface lines, has, in proportion to the traffic carried, been materially reduced.

In 1918 there were 328,000,000 car miles operated for the accommodation of less than 2,000,000,000 passengers. During the year just past, with 2,500,000,000 passengers carried, the car mileage had risen only to 344,000,000. In other words, the facilities within a period of three years have been increased only 5 per cent. while the traffic increased 25 per cent.

The cuts in service vary with different hours of the day, and approximately full service is still furnished by the subways at least at the peak of the rush hour. Upon many individual lines there has been an actual reduction in the old basis of service. The average of the service, however, is most unsatisfactory.

It would be difficult even to estimate, separately, the amount of expense saved by the companies through service reductions. They admit that it has been large, and continue to protest its necessity. But whatever the saving may be, it remains a poor offset to the cost of the time lost to individual passengers in the tedious business of waiting for trains and cars, and of both time and temper lost through the inhuman packing of cars, the congestion of station platforms, and the physical wear and tear of daily travelling experience.

(4) The physical properties of many of the companies, structures, tracks and cars alike, in the absence of adequate funds for current repair work, have become badly run down, and in some instances are unfit for use.

The amount that it will take to bring the postponed repair work to date, with certain rehabilitations, chiefly upon the surface lines, was estimated at the end of the year 1920, by the Public Service Commission for the First District in its report to the Legislature, at $10,-

945,000. Revised figures showing the growth of this item to date are in course of preparation.

(5) In addition to the postponement of current repairs to the properties in use there has been a general lack of provision for the new structure, equipment and facilities required to keep up with the phenomenal increase of traffic or to replace obsolete properties.

It is roughly estimated that $25,000,000 will be needed for new properties of this character. Practically none of this has been provided or even contracted for. Some of the rolling stock still in use is over thirty years old.

(6) As a further consequence of the failure to develop adequate revenues, the interest upon the city's share of the investment in the dual subways which, by this time, should have been carried from the earnings of the roads is still carried annually in the city budget and paid from taxation. In the budget for 1921, the sum of these charges for interest and sinking fund requirements amounted to over $9,500,000. For 1922 it will be greater.

The continuance of this uneconomic policy serves merely to defer the carrying of the city's share of expense from the revenues of the roads, for which provision must be made before the present problem can be properly solved.

(7) Finally, it appears that no plans whatever have been made for the building of additional subways; though the fact that many of the lines of the dual system are already taxed to capacity has been well advertised, and the need of providing at once for a system of extensions has been repeatedly made clear.

Within the past five months, even the completion of the still unfinished parts of the dual system has been blocked at important points through the failure of the

Board of Estimate and Apportionment to approve pending contracts or to vote the necessary funds.

If the existing routes were in first-class condition and functioning properly, an intensive program of new subway building should already be under way. The present rate of increases in the volume of traffic carried is extraordinary, far exceeding in proportion the normal increases in population. During the two years ended June 30, 1921, the number of passengers carried on all the lines, subway, elevated and surface, increased by 419,970,000 over the number carried in 1919, or an average of 575,300 in the number carried daily.

It will be recalled that although in 1900 and 1902, the letting of contracts for the first subways was hailed as a promise of lasting relief, the congestion had become deplorable before the lines of the dual system were contracted for in 1913. Nearly another ten years have passed since these contracts were negotiated and though the warnings of disaster are quite as clear, there is total inaction. In the judgment of the Commission, at least $50,000,000 of new subway work should be placed under contract annually for the next five years. The city, how ever, as matters now stand, is unable to devote anything approaching this amount of capital to rapid transit purposes. Its constitutional borrowing capacity, as to the present margin of which there appears to be much uncertainty, is bound to be required, during the next few years, for schools and a multitude of other city needs, and cannot be drawn upon to any large extent for subway purposes.

The investment of $230,000,000 in the 1913 lines already made by the City is, and will remain, a permanent charge against the debt limit so long as the city fails to take payment of its interest and sinking fund charges

from the revenues of the roads. The way is thus blocked to the use of further city credit. If these charges are included, as they should be, among the fixed operating costs of the future system, the city's entire investment of a quarter of a billion dollars in the dual lines will be released, and a like sum may be borrowed to cover the work ahead.

The Commission, in one of the separate reports it proposes to publish in the near future, will present a general plan for the building of those new lines that, in its judgment, are immediately required, together with its recommendations as to the order in which they should be undertaken. Before proceeding, however, with anything more than the planning of lines upon paper, it will require the active co-operation of the Board of Estimate and Apportionment, which continues to hold the powers of consent and appropriation in the matter of subway building.

Financial Situation of the Companies

The Commission further finds the following facts:

1. That the companies, notwithstanding their savings through reductions of service, are still failing in an increasing ratio to meet their operating and fixed charges. Statements covering their operations for the three years ended June 30, 1921, show the aggregate deficits of all lines after allowance for fixed charges and operating expense, as follows:

For the year ended June 30, 1919	$ 8,572,558
" " " " June 30, 1920	11,423,936
" " " " June 30, 1921	17,122,798

The greater part of the increase of $5,698,862 in the

deficit for the fiscal year just ended, over that of the year before, is attributable to the advance in wage schedules of August, 1920, which in turn will be offset largely during the current year by the wage reduction of ten per cent. agreed upon a month ago. It will appear clearly, however, under analysis that up to the present time there has been little net change in the volume of loss resulting from ordinary operation.

It is to be borne in mind that the progressive deficits shown are based solely upon operating expense, routine rental charges, taxes and interest on bonds. No doubt there are various charges in the list that can be reduced or that will disappear under a reorganized and more economical plan of operation. The figures as they stand, however, offer a logical starting point in ascertaining the amount of revenue necessary adequately to carry the system in the future.

2. While the so-called preferential allowances of the Interborough and the Brooklyn Rapid Transit Companies under the Dual Contracts had not been earned during the year covered by the statements referred to, they are carried as a cumulative claim, payable from future surplus earnings, before any payments of interest or sinking fund charges may be made on the City's share of the dual investment.

On June 30, 1921, the accumulation of Company unearned and unpaid preferentials of this character amounted to the following:

Interborough Company (subway account)	$ 6,061,143
" " (Manhattan Elevated account)	23,646,548
Brooklyn Rapid Transit Company	11,973,767
A total of	$41,681,458

Until an agreement has been reached upon a plan of readjustment these claims will, of course, continue to mount and will be counted by the companies as contingent assets, while the corresponding deficits of the City, paid from taxation as the additional lines to be placed under construction are completed and additional bonds are issued to pay for them, will also continue to mount.

3. In order to carry their deficits and at the same time continue to exist and to operate their lines, the companies have been living upon a "hand-to-mouth" basis, subsisting in the main upon defaults in the payment of interest and taxes and through the putting off as far as they can the payment of their current bills.

On June 30, 1921, the aggregate of current assets of all the companies was $55,908,893, of which $9,248,552 was in current cash funds. Upon the same date the aggregate of current liabilities, many of them of a pressing nature, was $111,044,653. They include the following:

Arrears of taxes due, State and City......	$13,370,972
Unpaid interest on underlying bonds, etc. ..	36,083,595
Rentals overdue	14,557,975
Accounts and bills payable	14,449,291

It is, of course, true that some of the companies are in a better condition than others and that the figures applying to individual cases vary. The Interborough Company in its Subway Division, for instance, makes a better showing than any of the others.

The Interborough Company, nevertheless, upon its subway operation, showed an operating profit applicable to the carrying of its elevated deficit of $2,630,953 for the year ended June 30, 1920, and of only $1,129,548 for the fiscal year just ended, a decrease of $1,501,405. On the

other hand, during the same period, the Manhattan surface lines of the New York Railways Company, as constituted before their receivership, while still showing a deficit of $3,151,654, showed a gain of $937,149 over their record of the year before.

The public unfortunately has not been fully aware of the serious nature of these conditions. In this recital the Commission has only sketched them. In subsequent statements it will endeavor to give completely informing portrayals of them all. But even a sketch of the situation, coupled with the knowledge that absolutely no provision has been made for taking care of the conditions of the future, is alarming.

The City of New York upon every consideration, whether of its physical greatness, its wealth, the complexities of its daily commercial and industrial life or its dignity, ought to have the best planned and best equipped and operated street railway system in the world.

The spectacle of the City, on the other hand, dependent on the present embarrassed and generally ill-equipped agencies for a service essential to its daily existence, is a sorry one. That the companies are not wholly responsible for their condition does not mend the fact. That there is merit—in some instances the highest degree of efficiency—in their mechanical operation, even within their present means, does not affect the major question. If they were fully restored to-morrow there would be no promise or protection against a recurrence of the conditions of to-day.

In the judgment of the Commission a complete change both in the organization and in the methods of financing the system, as well as its relation to the public, must be effected. To bring about such a change was frankly the purpose of the legislation under which the Commission is

acting. That purpose was not only to end the present state of chaos but to end, so far as possible, the financial and political manipulation to which traditionally the transit system has been subjected—to re-create it, in short, on lines sound both economically and morally.

Conclusions

It is the conclusion of the Commission that the plan of reorganization should be based upon the following principles:

1. That all existing lines—subway, elevated and surface—should be unified for purposes of future operation, and placed under the control of a single supervisory authority in which the operating companies and the City shall participate upon equal terms.

2. That the railway properties still held in private ownership, whether under direct title, franchises, contracts or leases, should, so far as required for the purposes of the unified system, be transferred to the City; their owners receiving in return new securities, based upon the actual value of the lines for operating purposes.

3. That the continued possession of any of the roads for purposes of operation be conditioned upon the acceptance from the City of new leases, granted for restricted periods, and that the revenue derived from such operation be used only for the payment of actual operating cost and the interest and sinking fund charges upon the new securities—plus certain limited percentages of profit allowed when earned as an incentive to good management.

4. That the new securities be amortized in favor of the City, subject to the right of the City to retake any specified one of the lines upon the payment of any then unamortized proportion of the securities.

5. That provision be also made from the revenue of the roads for payment in each year of the interest and sinking fund charges upon the city's investment in the dual subways; as well as upon all subsequent rapid transit investments of the city.

6. That as a condition precedent to participation in the proposed reorganization the preferential allowance of profits granted to any one of the companies as a consideration for rights yielded under previous contracts or leases, as well as any claims based upon the unpaid accumulation of such preferential profits, be given up; and that all inter-company leases or other undertakings covering the use either of lines or equipment be canceled.

7. That the lines retained in the reorganized system be arranged so as to eliminate gradually all duplication of service so that the rapid transit roads will serve the long hauls and the surface cars—or buses—the local and connecting hauls.

8. That only such lines as in the judgment of the Commission are adaptable to such a system be acquired, or accorded any value for purposes of such acquisition.

9. That as rapidly as may be possible financially full and continuous service be restored upon all of the lines, free transfers re-established and postponed repairs given proper attention.

10. That all train and car schedules be so arranged as to provide adequately for the comfort and convenient service of the travelling public at all hours of the day.

11. That in order further to relieve present conditions, and to provide for the great increases of traffic certain to develop in the near future, immediate provision be

made for the planning and building of additional new subways.

12. That provision be made for winding up the affairs of the present operating companies at the earliest practicable time upon the basis of the adjustment suggested, for the satisfactory settlement by them of their current liabilities before transfer of their lines to the City and for the termination of all receiverships.

13. That in order to preserve a unified rate of fare on all the lines, all surplus earnings be pooled and that a proper fund be established, to consist of such surplus earnings and such temporary borrowings as may be necessary, to cover current contingent needs.

14. That the rate of fare shall not be fixed, in any discretionary sense, either by the Commission or by any other authority but that it shall be determined from year to year automatically according to the actual costs of operation.

Present Rate of Fare

It is the further conclusion of the Commission that until there has been ample demonstration of the general results of operation of the new plan and until the changes and economies the plan has in view are tested fully, there should be no change in the present rate of fare. The Commission will require, therefore, that the rate for the first year following the initiation of the plan shall remain at five cents.

In any consideration of the rate of fare to be charged there should be taken into account the fact that one result of the past three years' policy of inaction has been to hide a substantial increased fare in the present disintegrated and depreciated service. Through the doubling

of fares and the elimination of free transfers the net return per ride for each passenger carried on the surface lines in Manhattan and The Bronx has been increased from 3.674 cents in 1918 to 4.342 cents in 1921; in Brooklyn the average of 3.341 cents in 1918 has been increased to 4.415 cents in 1921. In other words, the surface lines in Manhattan, Brooklyn and The Bronx are already receiving a net increase of about one cent per passenger over the net return of 1918.

There has been no such direct increase upon the subway and elevated lines where continuous rides are the rule. There the added cost to the passenger has been in discomfort and loss of time. But even there the payment of the City's deficits through taxation is adding almost exactly one cent to the subway fare.

In short, increased fares have not been avoided. They have been secured through indirection.

The Commission appreciates that if proper and necessary service is to be restored, and the revenues gained through charging of double fares and the cutting out of transfers given up, this hidden increase must be first absorbed. In other words, savings must be effected that will offset the hidden rate. The Commission appreciates as well that various fixed charges must be eliminated, and many costs reduced, to offset further burdens placed upon the present system.

If the present situation were accepted as the basis of fare fixing—a solution the Commission declines to consider—without allowance for profits of any nature, preferential or otherwise, the following deficiencies would have to be overcome:

(a) The gross revenues of the operating companies for the year ended June 30, 1921, was in round numbers \$133,000,000, and the costs of operation, taxes, rentals

and interest, $150,000,000. The deficits, heretofore cited, are therefore $17,000,000

(b) The deficits in the interest and sinking fund account of the city which in 1921 amounted to $9,500,000 will advance in 1922 to approximately $10,000,000—the total to be provided from revenue for the city's account, therefore, will be 10,000,000

(c) The cost of eliminating double fares, and of restoring free transfers upon the surface lines will be for each year not less than.... 9,000,000

(d) And one-third of the cost of neglected repair work and incidental rehabilitation, if this expense can be spread over three years, would add not less than 5,000,000

The total thus required (without allowance for the cost of restoring full train and car service, which cannot be estimated with any exactness, and without provision for the full replacement of worn-out and obsolete equipment) would be $41,000,000

Against this sum there may be counted a reduction of $5,000,000 to be secured through the wage adjustments of a month ago. This will bring the net additional indicated need on the present basis approximately to $36,000,000.

It is true that the above figures are based upon the present accounts and financing of the companies. In a rate case the intensive scrutiny of accounts undoubtedly would result in heavy cuts. But the net figure of $36,000,000 indicates the size of the obstacle to be overcome—after three years' policy of drift—to reestablish and maintain the five cent fare.

It will appear that if the only method of relief was upon the basis of present organization and financial structure, the prospect for maintaining the five cent fare would not be hopeful.

But it is the opinion of the Commission that if the reorganization plan it presents be adopted, with (*a*) the rearrangement and more effective co-ordination of the transit system, (*b*) the reduction of rentals and interest charges that it has in view, (*c*) the elimination of taxes and other public charges, from which the municipalized lines naturally would be free, (*d*) the reductions of cost effected through consolidation of power plants and of other facilities used in common, and (*e*) the material savings that will occur in the reduction of overhead and operating charges, the indicated deficiencies may be substantially overcome and the five cent fare continued beyond the year of trial.

While naturally every endeavor will be made to attain this end, the question finally can be determined only by a demonstration of the results of operation of the consolidated system such as the plan proposes.

Effects of Reorganization

The enforcement of a plan based upon the principles cited, beyond securing the economies and benefits of consolidation and ending a condition of financial chaos and paralysis, will clean out the separate, special, private interests with their persistent friction and conflicting policies and substitute a new basic organization in which the interests of the City and of private investors would be common.

If these principles be recognized and given effect, it will follow that while opportunities for the making of money through the speculative manipulation of transit

securities will cease, *bona fide* investors, on the other hand, assured of adequate protection, should not hesitate to lend as further funds are required. The advantages that will flow to the travelling public from the plan are obvious. Nor does the Commission see in it any unfairness either to the operating companies or to the present owners of their securities.

In readjusting securities on the basis of honest value the Commission has in view, and will insist upon, the elimination of "water" of every description and the frank recognition of a depreciation that investors have long since discounted. In requiring that existing "preferentials" be given up, as a part return for the stability the plan would give to real investment, the Commission again seeks to cut out whatever has become unstable or artificial in transit finance. Preferential allowances held to be fair and necessary when the Dual Contracts were negotiated ten years ago are not fair under the conditions of to-day. If the subway operators argue that their preferentials should be continued, and that a fare should be fixed sufficient to cover them, they would claim in effect that they alone are entitled to a hundred per cent. protection against the losses and shrinkages of the War, while the City, the private investors and every other party to the old agreements have been required to carry very substantial losses, direct and indirect.

The elimination of inter-company leases will put an end to another form of abuse in transit finance and avoid the continuance of undue favor to any particular class of security holders. Under the plan all such leases would be discontinued and the lines of lessor companies merged with the unified system upon the same terms as to the recognition of actual value and the allotment of interest-bearing securities that apply to all others.

In accordance with the foregoing findings the Commission submits the following general outline of its plan and of the mechanism through which it is to be put into effect:

THE PLAN

General Scope and Object

The plan provides for the valuation, consolidation and municipal ownership of all transportation facilities deemed by the Transit Commission to be useful and essential. Such facilities are to be acquired without cost to the City by amortizing out of earnings the valuations fixed by the Transit Commission. All existing corporations and their franchises, inter-leases and securities are gradually to be eliminated or extinguished, except such underlying liens carrying a low rate of interest as the Commission deems it advisable not to disturb. Existing securities, with such exceptions, are to be replaced by an issue of bonds of a Consolidated Company representing a fair and honest valuation of the properties. Payment of these bonds with interest and a sinking fund charge sufficient to retire them within a reasonable period, which will be less than the term of the present subway leases, to be secured by a purchase money mortgage and assured by a rate of fare based on cost, automatically determined by the condition of a contingent reserve or barometer fund.

Valuation

Valuations according to existing security issues and present capitalization will be disregarded and the entire financial structure of the Consolidated Company will be based upon a new valuation, which, under the Rapid Transit legislation of this year, is rapidly being completed. By this means the "water" in present financing

and capitalization will be eliminated and the new valuation will represent the real values in the transportation properties.

Municipal Ownership

In view of the large investment of the City in and its ownership of the existing subway lines, the benefits of a unified system can best be secured through the immediate municipal ownership of all transportation facilities deemed useful and essential in a comprehensive system, and their operation, under effective public control by company agencies to be created for the purpose. If the City authorities shall oppose immediate municipal ownership of the transit system, with its present opportunity to reform completely the existing situation, the Commission is prepared to consider the alternative course of vesting title to all properties not now owned by the City, including the subway leases, in the Consolidated Company, with provision for deferred ownership by the City. Such a course will permit the general features of the plan to be carried out, but will add to the difficulties and tend to impose a higher fare.

Under the plan, ownership will be acquired by the City without financial outlay on its part. Existing companies will turn in to the Consolidated Company, and through it to the City, all properties and rights in return for new leases which will provide for amortization out of the earnings of the Consolidated System of the valuation fixed by the Commission.

Consolidation

The existing, separate systems to be consolidated at the start into three new operating groups to be made up as follows:

Group No. 1: The subway and elevated railroads now operated by the Interborough Rapid Transit Company and leased by it from the City and the Manhattan Railway Company.

Group No. 2: The subway, elevated and surface railroads now or formerly in the Brooklyn Rapid Transit system.

Group No. 3: The surface railroads of the Boroughs of Manhattan and The Bronx.

The surface railroads in Queens and Richmond, in whole or in part, to be allocated to Group No. 2 or Group No. 3, as may be determined.

Bus lines necessary for the logical development of the unified system to be created and allocated as feeders to the foregoing group. Where necessary or desirable, some of the existing surface lines may be transformed into bus lines.

All existing power facilities to be consolidated and operated for the common benefit of the entire system.

Organization of a Unified System

To pave the way for the eventual, complete consolidation into one system, and to secure the benefits of private operation under public control, the Transit Commission will cause to be organized four corporations,—"A", "B", "C" and "D" Companies,—each with a nominal number of capital shares.

"A" Company will be the controlling and financial company, and general supervisor of the affairs of "B," "C" and "D" Companies, which will be exclusively operating companies. The shares of stock of the operating companies will be owned by "A" Company, whose

shares in turn will be held in trust by the Transit Commission, or by whatever body may succeed it.

"B" Company will operate under lease the properties embraced in Group No. 1, "C" Company the properties embraced in Group No. 2, and "D" Company the properties embraced in Group No. 3.

Control

General financial control and supervision of the entire system will be lodged in a Board of Control, which will also constitute the directorate of "A" Company. It will consist of seven members, to be chosen as follows: One each by the Boards of Directors of the three operating companies, "B", "C" and "D", three by the Mayor of the City, and the seventh member by vote of the other six, or, in the event of their inability to agree, then by the Transit Commission or by whatever body may succeed it.

The powers of the Board of Control are to be those of a financial nature, as above indicated, together with such other powers of supervision and direction as may properly be conferred upon it by the contracts to be entered into. It will be responsible for the distribution and management of all the surplus revenues of the operating companies after payment of their own operating expenses, will have sole charge of the issuing of all securities, will make all payments for interest, and have the custody and management of the amortization, contingent reserve, and other funds.

The functions of the Transit Commission in respect to construction should be vested in the Board of Control, and from time to time, as experience warrants, all the remaining functions of the Transit Commission, except those involving exercise of the police power, to which the Public Service Commission will succeed, should be

vested in the Board of Control, permitting the abolition of the Transit Commission. Legislation to this end will be recommended by the Commission.

To provide for the eventual consolidation into one operating company, the Board of Control will have the power, after a specified number of years, to consolidate further the groups and operating companies provided for under this plan into one or two operating companies, as it may deem best.

It may be noted not only that this control differs from past methods, in that it is placed where it can be exercised most efficiently and economically, but that the City's participation is placed on an equality with that of the private investors, giving the City for the first time real and substantially complete home rule with respect to transit.

Expenses of Board of Control

If, as expected under the plan, selfish and antagonistic interests are eliminated, and the interests of the City and the company investors made common, it should be possible to have a large part of the detail work now done by the staff of the Transit Commission performed by the staffs of the operating companies, and thus cut down the large force of public employees necessary under present conditions. In view of the base of the interests of the City and the company investors being common, the expenses of the Board of Control should be treated as an operating expense and paid out of railroad earnings.

The Operating Companies

The operating management of "B", "C" and "D" Companies shall be vested in their respective Boards of

Directors under the terms of their leases. The Board of Directors of "B" Company shall be elected by the holders of the bonds issued in exchange for the securities and properties constituting Group No. 1. Similarly, the directors of "C" and "D" Companies will be elected by the holders of the bonds issued in exchange for the securities and properties constituting Group No. 2 and Group No. 3 respectively. Management will thus represent investment instead of speculation.

Mechanism of Transfer of Properties to the City

The present subway leases to be reformed or superseded by agreement, so as to abolish all preferential payments and place company and City investments on a parity. Ownership of all subway equipment not already owned by the City to be vested in the City without outlay by the City in return for a new lease.

The reformed subway leases, comprising the Interborough System, together with the lines constituting the Manhattan Elevated Railroad System, to be assigned and transferred, with the consent of stockholders, or, failing that, by means of foreclosure sale, to "A" Company in exchange for "A" Company bonds, equal in amount to the valuation of the properties of the Interborough and Manhattan Companies, made by the Transit Commission pursuant to Chapters 134 and 335 of the Laws of 1921.

These bonds to be exchanged for outstanding securities issued against the properties transferred on terms to be fixed in the final statutory plan and contract, reached if possible by agreement between protective committees of security holders, but otherwise to be determined by the Transit Commission.

Pursuant to the terms of the final statutory plan and contract, "A" Company will forthwith, by appropriate

instrument, vest in the City all of its right, title and interest in and to the properties acquired, in return for a lease of the properties transferred, comprising Group No. 1, to "B" Company for operation, under the general terms hereinafter stated.

The bonds of "A" Company, issued in exchange for the properties transferred to it and by it vested in the City, shall be secured by a purchase money mortgage which shall be a specific lien upon the properties transferred and a general lien upon all of the property of "A" Company, including its interest in the leases to the operating companies. These bonds shall bear interest at the rate of five per cent. per annum, with an additional one per cent. set aside to amortize the valuation as fixed by the Transit Commission. The bonds will be further secured by provision in the final statutory plan and contract for the maintenance of a rate of fare automatically determined to meet at all times cost of operation, bond interest, and one per cent. for amortization.

Under conditions hereinafter stated, in order to provide an incentive to efficient and economical management, it will be possible for the bonds to earn an additional one and one-half per cent. of interest.

In similar manner the lines now or formerly comprising the Brooklyn Rapid Transit System, surface, subway and elevated (and if it is finally deemed best, the surface lines in Queens and Richmond), will be transferred to "A" Company in exchange for its bonds, equal in amount to the valuation of said properties, as determined by the Transit Commission, which properties shall be by "A" Company vested in the City in return for a lease to "C" operating company upon terms similar to those provided in the case of "B" Company.

In a similar manner the lines now comprising the various surface lines in Manhattan and The Bronx, or such of them as shall be deemed by the Transit Commission to

be useful and essential, shall be transferred to "A" Company in exchange for its bonds equal in amount to the valuation of said properties as determined by the Transit Commission, which properties shall be by "A" Company vested in the City in return for a lease thereof to "D" operating company, upon terms similar to those provided in the case of "B" and "C" Companies.

Upon the completion of the amortization period of the purchase money bonds issued by "A" Company, the City's title to all the transit lines will be free and clear of such liens, but the City shall have the right to extinguish the bonds underlying any line or lines at any time after ten years, upon payment of the then unamortized portion of the bonds.

New Capital of "A" Company

"A" Company shall raise by the issue of notes, or other form of short term securities, sufficient funds for financing the unified system and providing necessary working capital during the early period of its development. Such funds shall be utilized, among other things, for the establishment of the contingent reserve or barometer fund hereinafter provided for. Such additional capital as may be needed for transit construction or equipment, other than that furnished by the City, shall be raised by the sale of new bonds to be issued by "A" Company, as may be determined upon by the Board of Control.

Rate of Fare

There shall be no increase in the 5-cent rate of fare, unless, after one year's demonstration of the results of operation of the Consolidated System, with its new and many opportunities for substantial economies, an increase is demonstrated to be necessary. Then and at the

conclusion of each succeeding fiscal year the rate of fare will be determined automatically by the status of the contingent reserve or "barometer" fund, and shall be put into effect by the Board of Control. During each year of operation under the plan the rate of fare shall be adequate to provide for cost of operation and interest and sinking fund upon the bonds and other current obligations of the Consolidated System, including provision for the maintenance of the contingent reserve or barometer fund.

This will operate as follows:

After payment of operating expenses and fixed charges (the fairness of the amounts of which is insured by the valuation of the properties by the Transit Commission and the control over expenditures by the Board of Control), the surplus moneys are to be paid into a contingent reserve or barometer fund. If the available surplus keeps this fund above a specified maximum, the fare is to be automatically lowered; if the fund falls below a specified minimum, the fare is to be automatically increased until the reserve is restored.

For example: Assume that the normal amount of the barometer fund is fixed at $25,000,000. If it rises to $35,000,000, the fare is to be decreased; if it falls to $15,000,000, the fare is to be increased.

In short, the purpose of this is, after fixing the base of proper valuation and determining the operating expenses and fixed charges, to make the decision as to the rate of fare as automatic as is humanly possible. Upon the new basis the public can be assured that all money expended is properly expended for necessary cost, and the rate of fare, therefore, will reflect the actual and necessary cost of the transportation that the public gets, uninfluenced by any opportunity of private gain based upon stock ownership.

Transfers on all of the lines of each of the three operating systems will be established at proper points as rapidly as financial conditions will permit.

Application of Proceeds of Operation

Each operating company will pay its own operating expense and retain its own maintenance and depreciation reserve as authorized by the terms of its lease, and turn over all surplus funds to "A" Company. "A" Company will pool the moneys so received and distribute same as follows:

(a) It shall pay to the holders of its securities the fixed return prescribed, and to the City the interest upon its Rapid Transit investment.

(b) It shall pay into an amortization fund the specified rate for the amortization of its bonds, and to the Comptroller of the City of New York a specified rate for the amortization of the corporate stock of the City issued for Rapid Transit construction.

(c) It shall make good any deficit in the cost of operation in any preceding year sustained by any one of the three operating companies.

(d) It shall out of the remaining surplus maintain the above mentioned contingent reserve or barometer fund.

Incentive for Efficient Service

In order to provide an incentive for efficient and economical management, there shall be set aside each

year by the Board of Control out of the surplus earnings of the unified system, after the payment of all obligations and the maintenance of the barometer fund, a sum to be distributed or used for the joint benefit of the operating personnel of the unified system and the holders of the Consolidated Company's bonds. This fund, within the limits of the available surplus, shall, for the purpose of computing allotments prescribed, equal three per cent. interest on the purchase money bonds issued by the Consolidated Company. When the amount so available has been determined by the Board of Control it shall be allocated, one-half for the benefit of the operating personnel as hereinafter indicated, and one-half for the payment of additional interest upon the outstanding purchase money bonds, but subject to the condition that with any increase or decrease of fare above or below the rate of five cents, such fund shall be decreased or increased, as the case may be, on the basis of one per cent. interest on the bonds with each cent of fare variation.

In similar manner, out of the remaining one-half of the fund referred to, there shall be allocated under the contingencies mentioned a like amount for the benefit of the operating personnel of the unified system, which allocated sum shall be expended under the direction of the Board of Control for the collective benefit of the operating personnel.

If, however, the Board of Control so determines, the said sum may be expended under the direction of the Board of Control to provide benefits, such as insurance and pensions, for the operating personnel and to reward employees who in various groups have, during the preceding year, rendered conspicuously efficient service.

Contract and Tort Creditors

There will be included in the contracts for the transfer of the several lines to the Consolidated Company provision for obligations to contract and tort creditors and to holders of receivers' certificates of indebtedness, employing for this purpose, so far as can be agreed upon, the bonds and short term securities of the Consolidated Company, due allowance therefor being made in the price at which the respective properties are to be taken over.

Term of Leases and Amortization

The term of the leases shall be for so long as is necessary to amortize the valuation as fixed by the Transit Commission.

All leases to be subject to extinguishment or recapture by the City at the end of ten years upon payment of the then unamortized part of the valuation of the leased properties.

As the amortization funds will be managed by the Board of Control, on which the City will be adequately represented, their proper and conservative management in the City's interest will be assured. In order, however, to meet the objections to the past management of sinking funds, which have generally been managed through buying securities for the fund and through the compounding of interest, providing an amount that at the end of a given period will be equal to the par value of the securities outstanding, which method keeps a large debt outstanding and offers a constant inducement to manipulate the sinking fund so as to secure some immediate financial aid for operation or otherwise, the final statutory plan and contract will require the adoption of the more clean-

cut method of buying or calling in each year a part of the outstanding securities and cancelling them. This will wipe out a definite part of the debt each year and, although its cost, as indicated by accounting studies, is somewhat greater than on the compound interest basis, the Commission believes that it possesses many advantages. After some years the debt should sufficiently be reduced to ease greatly the cost of meeting fixed charges and thereby pave the way for bettered service or possibly decreased fares.

END OF
TITLE